



# SIGAR

## Special Inspector General for Afghanistan Reconstruction

### WHAT THE AUDIT REVIEWED

On July 1, 2015, the U.S. Agency for International Development (USAID) awarded a 5-year, cost-plus-fixed-fee task order for \$15,000,000 to Development Alternatives Inc. to support the Afghan Women's Leadership in the Economy project. The project's goals were to improve employment opportunities for educated Afghan women between ages of 18 and 30, and increase income and viability for women-owned businesses in Afghanistan. In 2016, the project's name changed to Afghan Women in the Economy. After five modifications, the task order's total funding increased to \$44,598,984, and the period of performance changed from June 30, 2020, to June 30, 2019. In January 2016, Development Alternatives Inc. was renamed DAI Global LLC (DAI).

SIGAR's financial audit, performed by Williams Adley & Company-DC LLP (Williams Adley), reviewed \$33,616,783 in costs charged to the task order from July 1, 2015, through June 30, 2018. The objectives of the audit were to (1) identify and report on material weaknesses or significant deficiencies in DAI's internal controls related to the task order; (2) identify and report on instances of material noncompliance with the terms of the task order and applicable laws and regulations, including any potential fraud or abuse; (3) determine and report on whether DAI has taken corrective action on prior findings and recommendations; and (4) express an opinion on the fair presentation of DAI's Special Purpose Financial Statement (SPFS). See Williams Adley's report for the precise audit objectives.

In contracting with an independent audit firm and drawing from the results of the audit, auditing standards require SIGAR to review the audit work performed. Accordingly, SIGAR oversaw the audit and reviewed its results. Our review disclosed no instances where Williams Adley did not comply, in all material respects, with U.S. generally accepted government auditing standards.

January 2020

### USAID's Afghan Women in the Economy: Audit of Costs Incurred by DAI Global LLC

SIGAR 20-16-FA

### WHAT SIGAR FOUND

Williams Adley identified one material weakness and one deficiency in DAI's internal controls, and two instances of noncompliance with the terms of the task order. The auditors determined that DAI did not provide evidence that the contracting officer approved a fixed-fee invoice, which violated the terms of the task order. This resulted in \$403,009 in unsupported questioned costs.

Williams Adley found that DAI was using a general and administration rate that exceeded the rate set in the task order. As result, the auditors questioned \$1,412 in ineligible indirect costs. However, the auditors later removed the questioned costs because DAI provided evidence from a subsequent period showing that it adjusted its indirect cost rate in order to match USAID's approved rate.

Because of these internal control deficiencies and instances of noncompliance, Williams Adley identified \$403,009 in total questioned costs, entirely consisting of unsupported costs—costs not supported with adequate documentation or that did not have required prior approval. Williams Adley did not identify any ineligible costs—costs prohibited by the contract, applicable laws, or regulations.

Category	Ineligible	Unsupported	Total Questioned Costs
Fixed Fee	\$0	\$403,009	\$403,009
<b>Total Costs</b>	<b>\$0</b>	<b>\$403,009</b>	<b>\$403,009</b>

Williams Adley identified three prior audit reports that were relevant to DAI's activities under the task order. The reports had 19 findings, 9 of which may have a material effect on the SPFS. Williams Adley conducted follow-up procedures and concluded that DAI had taken adequate corrective action on all findings.

Williams Adley issued a modified opinion on the DAI's SPFS because of material questioned costs identified during this audit.

### WHAT SIGAR RECOMMENDS

Based on the results of the audit, SIGAR recommends that the responsible contracting officer at USAID:

- 1. Determine the allowability of and recover, as appropriate, \$403,009 in questioned costs identified in the report.**
- 2. Advise DAI to address the report's two internal control findings.**
- 3. Advise DAI address the report's two noncompliance findings.**



**SIGAR**

Office of the Special Inspector General  
for Afghanistan Reconstruction

January 9, 2020

The Honorable Mark Green  
Administrator, U.S. Agency for International Development

Mr. Peter Natiello  
USAID Mission Director for Afghanistan

We contracted with Williams Adley & Company-DC LLP (Williams Adley) to audit the costs incurred by Development Alternatives Inc. (now known as DAI Global LLC or “DAI”) under a task order from the U.S. Agency for International Development (USAID) to support to Afghan Women in the Economy project.<sup>1</sup> The project’s goals were to improve employment opportunities for educated Afghan women between ages of 18 and 30, and increase income and viability for women-owned businesses in Afghanistan. Williams Adley reviewed \$33,616,783 in costs charged to the task order from July 1, 2015, through June 30, 2018. Our contract with Williams Adley required that the audit be performed in accordance with generally accepted government auditing standards issued by the Comptroller General of the United States.

Based on the results of the audit, SIGAR recommends that the responsible contracting officer at USAID:

- 1. Determine the allowability of and recover, as appropriate, \$403,009 in questioned costs identified in the report.**
- 2. Advise the DAI to address the report’s two internal control findings.**
- 3. Advise the DAI to address the report’s two noncompliance findings.**

The results of Williams Adley’s audit are discussed in detail in the attached report. We reviewed Williams Adley’s report and related documentation. Our review, as differentiated from an audit in accordance with U.S. generally accepted government auditing standards, was not intended to enable us to express, and we do not express, an opinion on DAI’s Special Purpose Financial Statement. We also express no opinion on the effectiveness of DAI’s internal control or compliance with the task order, laws, and regulations. Williams Adley is responsible for the attached auditor’s report and the conclusions expressed in it. However, our review disclosed no instances in which Williams Adley did not comply, in all material respects, with generally accepted government auditing standards issued by the Comptroller General of the United States.

John F. Sopko  
Special Inspector General  
for Afghanistan Reconstruction

(F-148)

<sup>1</sup> The task order number is AID-306-T0-15-00062.

**OFFICE OF THE  
SPECIAL INSPECTOR GENERAL FOR  
AFGHANISTAN RECONSTRUCTION**

Audit F-148

**Financial Audit of Costs Incurred**

by

**DAI Global, LLC**

Under

Task Order Number AID-306-TO-15-00062

For the Period

**July 1, 2015 through June 30, 2018**

Submitted by



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## Transmittal Letter

September 18, 2019

President and Chief Executive Officer and Board of Managers  
DAI Global, LLC (DAI)  
7600 Wisconsin Avenue, Suite 200  
Bethesda, MD 20614

Office of the Special Inspector General for Afghanistan Reconstruction (SIGAR)  
2530 Crystal Drive  
Arlington, VA 22202

We hereby provide to you our final report, which reflects results from the procedures we completed during our audit of the Development Alternatives Inc. task order number AID-306-TO-15-00062 under Indefinite Delivery, Indefinite Quantity (IDIQ) number AID-306-I-14-00013 to support the United States Agency for International Development (USAID) Afghan Women's Leadership in the Economy (AWLE) project, which was renamed Women in the Economy (WIE).

Within the pages that follow, we provide a summary of the work performed. Following the summary, we provide our Report on the Special Purpose Financial Statement, Report on Internal Control, and Report on Compliance. We do not express an opinion on the summary, Report on Internal Control or Report on Compliance.

When preparing our reports, we considered comments, feedback and interpretations provided by DAI and SIGAR, in writing and orally, throughout the audit. DAI's responses to the audit reports and our corresponding auditor analysis are incorporated herein following our audit reports.

Thank you for providing us the opportunity to work with you and to conduct the audit of this DAI contract task order.

Sincerely,

A handwritten signature in blue ink that reads 'Jocelyn Hill'.

Jocelyn Hill, CPA  
Partner

## Summary

### Background

On July 1, 2015, the United States Agency for International Development/Afghanistan (USAID) awarded a five-year, cost plus fixed-fee task order number AID-306-TO-15-00062 under IDIQ number AID-306-I-14-00013 to Development Alternatives Inc. (DAI)<sup>1</sup> for the Afghan Women's Leadership in the Economy (AWLE) activity to increase Afghan women's employment, advancement, and leadership in the mainstream economy. Initial funding for the task order was set at \$15 million. Under the contract DAI, through submission and approval of the annual work plan, was required to design and implement an integrated program of activities and interventions that enable Afghan women to increase their participation in the mainstream, formal economy by securing employment with advancement potential and by helping women-owned businesses grow. The activities are geographically specific to the five Hubs or Regional Economic Zones that promote IDIQ activities in the surrounding provinces. The five zones included Kabul, Mazar-i-Sharif, Jalalabad, Kandahar and Herat. Activities were also required to engage with women and their male stakeholders/champions from rural and semi-urban areas.

AWLE established two objectives to meet its goal: (1) new or improved employment opportunities for educated women between the ages of 18 and 30; and (2) increased income growth and viability for women-owned businesses and businesses with a workforce composed of at least ten percent women. After five modifications, the task order funding increased to \$44.5 million, the name of the activity was changed from AWLE to Women in the Economy (WIE) and the period of performance end date was shortened from June 30, 2020 to June 30, 2019.

Our audit procedures under this audit covered \$33,616,783 in expenditures for the period from July 1, 2015 through June 30, 2018. The projected end date for this task order is June 30, 2019.

Table 1: DAI Contract Task Order with Modifications

Task Order Activity	Date	Purpose
Initial Task order	7/1/2015	Award for 5-year base period
Modification 1	2/24/2016	Increase total obligated amount by \$15 million, re-named program from AWLE to WIE, and change period of performance from 5 years to 4 years
Modification 2	9/5/2017	Designate COR role and CO role

<sup>1</sup> Development Alternatives Inc. was converted to a limited liability company in January 2016 and renamed DAI Global, LLC

Task Order Activity	Date	Purpose
Modification 3	10/18/2017	Increase the total obligation amount and update key personnel
Modification 4	12/5/2017	Remove the age restrictions for educational attainment levels for all applicants and update key personnel
Modification 5	5/8/2018	Increase total obligated amount

## Work Performed

The Office of the Special Inspector General for Afghanistan Reconstruction (SIGAR) contracted Williams, Adley & Company-DC, LLP (Williams Adley) to conduct a financial audit of revenues, costs incurred, items directly procured by the United States Government and the balances for the period audited per task order number AID-306-TO-15-00062 under IDIQ number AID-306-I-14-00013 and associated modifications awarded to DAI for the period from July 1, 2015 through June 30, 2018.

## Objectives

The following are the objectives of the audit defined by SIGAR:

### Audit Objective 1 - Special Purpose Financial Statement (SPFS)

Express an opinion on whether the Special Purpose Financial Statement for the DAI task order award presents fairly, in all material respects, revenues received, costs incurred, items directly procured by the U.S. Government, and balance for the period audited in conformity with the terms of the award and generally accepted accounting principles or other comprehensive basis of accounting.

### Audit Objective 2 - Internal Controls

Evaluate and obtain a sufficient understanding of DAI's internal controls related to the award; assess control risk; and identify and report on significant deficiencies including material internal control weaknesses.

### Audit Objective 3 – Compliance

Perform tests to determine whether DAI complied, in all material respects, with the award requirements and applicable laws and regulations; and identify and report on instances of material noncompliance with terms of the award and applicable laws and regulations, including potential fraud or abuse that may have occurred.

### Audit Objective 4 - Corrective Action on Prior Findings and Recommendations

Determine and report on whether DAI has taken adequate corrective action to address findings and recommendations from previous engagements that could have a material effect on the SPFS or other financial data significant to the audit objectives.

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## Scope

The audit scope included the USAID task order AID-306-TO-15-00062 under IDIQ number AID-306-I-14-00013 and related modifications executed for revenues applied to and costs incurred during the period between July 1, 2015 and June 30, 2018 as reported on the SPFS. The audit was limited to those matters pertinent to the task order that have a direct and material effect on the SPFS and included an evaluation of the presentation, content and records supporting the SPFS. The following areas were included within the audit program for detailed evaluation:

- i. Administrative Procedures and Fraud Risk Assessment
- ii. Budget Management
- iii. Cash Management
- iv. Disbursement and Financial Reporting
- v. Procurement and Inventory Management

Our audit was conducted to form an opinion on the SPFS in accordance with the Statement presentation requirements in Note 2. Therefore:

- The Transmittal Letter to SIGAR and the information presented in the Table of Contents and Summary are presented for informational and organizational content purposes and are not required parts of the SPFS. Such information has not been subject to the auditing procedures applied in the audit of the SPFS, and accordingly, we do not express an opinion or provide any assurance on it.
- The scope of our audit does not include procedures to verify the efficacy of the USAID funded program, and accordingly, we do not express an opinion or provide any assurance on it.

## Methodology

We conducted our audit in accordance with generally accepted auditing standards, and generally accepted government auditing standards as published in the Government Accountability Office's *Government Auditing Standards*. Those standards require that we plan and perform our audit to obtain reasonable assurance about whether the Statement of the costs incurred under the award are free of material misstatement. An audit includes:

- Obtaining an understanding of DAI's internal controls related to the award, assessing control risk, and determining the extent of audit testing needed based on the control risk assessment.
- Examining, on a test basis, evidence supporting the amounts and disclosures presented in the Statement.

To meet the audit objectives, we prepared an audit plan for the engagement.

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For audit objective 1, we reviewed transactions for the period from July 1, 2015 through June 30, 2018 and subsequent events and information that may have a significant impact on the SPFS for the audit period. We used both statistical and judgmental sampling techniques to select direct labor, subcontractor agreement/consultant costs, travel, and other direct cost samples to test for allowability of incurred costs, and reviewed procurement records to determine cost reasonableness. The scope of our audit reflects our assessment of control risk and includes tests of incurred costs to provide a reasonable basis for our opinion.

For audit objective 2, we reviewed applicable background materials, including cooperative agreements, contracts, auditee financial progress reports, USAID regulations, SIGAR's Afghanistan alert letters, audit reports and special program reports, and auditee single audits, performance audits and/or financial statement audits as made available and provided. We conducted our review to gain a thorough understanding of the control environment. We interviewed management and reviewed business processes to determine if critical internal controls were in place that mirrored best practices such as sufficient management oversight of business processes, proper segregation of duties, documented policies and procedures, robust financial management systems, and sufficient monitoring of controls to ensure effective implementation thereof. We assessed the control risk for sampling and testing purposes.

For audit objective 3, we performed compliance testing including, but not limited to: determination of allowable costs under Federal Acquisition Regulation (FAR) and Agency for International Development Acquisition Regulations (AIDAR) cost principles; validation of indirect cost calculations pursuant to a provisional or final negotiated indirect cost rate agreement; testing cash management for funding to ensure it does not exceed the program's immediate cash needs requirements and confirm excess cash has been returned to the US Government; verify incurred cost eligibility; confirm equipment and real property management and disposal in accordance with an approved disposition plan; ensure expenditures comply with the period of availability of the Federal funds; ensure that procurement activities comply with full and open competition standards or provide justification for noncompetitive bids when applicable, and that suspension and debarment of the subcontractor or subrecipient was considered in the award decision; program income is reported and accounted for separately from donor funds; and financial reporting is accurate, timely and complete. In addition, we performed testing to assess and determine any potential fraud, abuse and illegal acts.

For audit objective 4, if prior audits indicated a need for corrective action to be taken by DAI, we ensured through inquiry, observation and testing whether the necessary steps were taken to adequately address those findings and recommendations that could have material effect on the SPFS or other financial data significant to the audit objectives.

## Summary of Results

Our audit of the costs incurred by DAI identified the following matters.

We issued a modified opinion on DAI's Special Purpose Financial Statement due to material questioned costs we identified during this audit.

We identified \$403,009 in total questioned costs because they were either ineligible or unsupported. Ineligible costs are explicitly questioned because they are unreasonable, prohibited by the audited task order or applicable laws and regulations, or not award related. Unsupported costs are not supported with adequate documentation or did not have required prior approvals or authorizations.

As part of obtaining reasonable assurance about whether the SPFS is free from material misstatement, we considered DAI's internal control over financial reporting and performed tests of those controls. We also performed tests of DAI's compliance with certain provisions of the task order and other laws and regulations, noncompliance with which could have a direct and material effect on the determination of the SPFS. The results of our tests disclosed one material weakness in internal control, one internal control deficiency and two instances of noncompliance under this audit. Where internal control and noncompliance findings pertained to the same matter, they were consolidated within a single finding. Please see the Independent Auditor's Report on Internal Control on page 14 and the Independent Auditor's Report on Compliance on page 16.

**Summary of Findings and Questioned Costs**

Finding	Description	Classification	Ineligible Costs	Unsupported Costs	Cumulative Questioned Costs
2019-01	Missing USAID pre-approval for fixed fee invoice	Material Weakness in Internal Control and Material Noncompliance	\$0	\$403,009	\$403,009
2019-02	Incorrect rate used to determine indirect cost	Internal Control Deficiency and Noncompliance	\$0	\$0	\$0
<b>Totals</b>			<b>\$0</b>	<b>\$403,009</b>	<b>\$403,009</b>

In performing our testing, we considered whether the information obtained during our testing resulted in either detected or suspected material waste, fraud or abuse, which would be subject to reporting under *Government Auditing Standards*. Evidence of such items was not identified during our testing.

**Status of Prior Audit Findings**

We requested prior audit reports, reviews and assessments pertaining to DAI's activities under the task order. We identified three prior audit reports issued by SIGAR and USAID Office of Inspector General (OIG) that contained 18 findings, nine of which may have a material effect on the Special Purpose Financial Statement or other financial data significant to the audit objectives. These reports are summarized as follows:

- Audit Report: SIGAR 18-61-Financial Audit, “USAID’s Agricultural Credit Enhancement Project: Audit of Costs Incurred by Development Alternatives Inc. for the period July 15, 2010 through February 25, 2015” issued on July 18, 2018.
- Audit Report: SIGAR 19-41-Financial Audit, “USAID’s Regional Agricultural Development Program in Northern Afghanistan: Audit of Costs Incurred by DAI Global LLC for the period January 1, 2016 through December 31, 2017” issued on June 10, 2019.
- USAID OIG report 3-306-17-035-R titled, “Financial Closeout Audit Report for Contracts No. 306-TO-13-00004, No. 306-A-0009-00508, No. 306-C-14-00002, No. 306-C-14-00016 & No. 306-C-12-00003,” issued on September 26, 2017.

The reports had nine findings that may have a material effect on the Special Purpose Financial Statement or other financial data significant to the audit objectives. We performed follow up procedures and held discussions with management, reviewed policies and procedures, and conducted testing of similar issues during our current audit. Accordingly, we concluded that DAI had taken adequate corrective actions on the nine findings and we did not observe evidence of those findings during this audit. Based on our review, we determined that none of the prior audit findings had a material effect on the Statement or other financial data significant to the audit objectives.

Please see Status of Prior Audit Report Findings and Recommendations for additional details regarding these prior audit issues and status.

## Summary of Management’s Comments

The following represents a summary of the responses provided by DAI to the findings identified in this report. The complete responses received can be found in Appendix A to this report.

DAI disagreed with finding 2019-01 and asserted that it did obtain the appropriate approvals based on meeting the deliverable requirements, which includes an email from the USAID’s Contracting Officer Representative (COR) stating her approval of invoices was a “defacto” approval of deliverables. DAI agreed an incorrect indirect rate was used for general and administrative (G&A) overhead costs for certain transactions as presented in finding 2019-02. DAI, however, disagreed that a questioned cost resulted from the G&A cost miscalculation because indirect cost calculations were updated and refunded to USAID in subsequent invoices based on a negotiated indirect cost rate agreement issued by USAID and its contract requirements. Our rebuttal to management comments is detailed in Appendix B of this report.

## Attachments

The auditor’s reports are supplemented by two attachments:

- Appendix A – Management Response to Findings and Recommendations
- Appendix B – Auditor’s Response to Management Comments



## **Independent Auditor's Report on the Special Purpose Financial Statement**

President and Chief Executive Officer and Board of Managers  
DAI Global, LLC  
7600 Wisconsin Avenue, Suite 200  
Bethesda, MD 20814

Office of the Special Inspector General for Afghanistan Reconstruction  
2530 Crystal Drive  
Arlington, VA 22202

We have audited the Special Purpose Financial Statement ("the Statement") of DAI Global, LLC (DAI) and the related notes to the Statement, with respect to United States Agency for International Development (USAID) IDIQ AID-306-I-14-00013 task order number AID-306-TO-15-00062 for the period July 1, 2015 through June 30, 2018.

### ***Management's Responsibility for the Special Purpose Financial Statement***

Management is responsible for the preparation and fair presentation of this Statement in accordance with the requirements provided by the Office of the Special Inspector General for Afghanistan Reconstruction (SIGAR). Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the Statement that is free from material misstatement, whether due to fraud or error.

### ***Auditor's Responsibility***

Our responsibility is to express an opinion on this Statement based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the Statement is free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the Statement. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the Statement, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to DAI's preparation and fair presentation of the Statement in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of DAI's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of

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accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the Statement.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### ***Basis for Qualified Opinion***

We noted a material weakness in adherence to invoicing terms and conditions, which contributed to \$403,009 in questioned costs and increases the risk of unallowable costs being paid inadvertently by USAID. The total questioned cost amount is considered material to the Statement.

### ***Qualified Opinion***

In our opinion, except for the effects of the \$403,009 in questioned costs noted in the Basis for Qualified Opinion paragraph, the Statement referred to above presents fairly, in all material respects, the revenues earned, costs incurred, and reimbursed, and balances for the indicated period in accordance with the terms of the agreement and in conformity with the basis of accounting described below.

### ***Basis of Accounting***

We draw your attention to Note 2 to the Statement, which describes the basis of accounting. As described in Note 2 to the Statement, the Statement is prepared by DAI on the basis of the requirements provided by SIGAR, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

### ***Report on Other Legal and Regulatory Requirements***

In accordance with *Government Auditing Standards*, we have also issued our reports dated June 6, 2019, on our consideration of DAI's internal control over financial reporting and our tests of its compliance with certain provisions of laws and regulations. Those reports are an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this Independent Auditor's Report in considering the results of our audit.

### ***Restriction on Use***

Our report is intended solely for the information and use of DAI, USAID, and SIGAR, and is not intended to be and should not be used by anyone other than these specified parties. Financial information in this report may be privileged. The restrictions of 18 U.S.C. 1905 should be considered before any information is released to the public.

*Williams, Adley & Company - DC, LLP*  
Washington, D.C.  
June 6, 2019

**DAI Global, LLC**  
**Special Purpose Financial Statement**  
 July 1, 2015 to June 30, 2018

	Budget	Actual	Questioned Costs		Notes <sup>2</sup>
			Ineligible	Unsupported	
<b><i>Revenues</i></b>					
AID-306-TO-15-00062	67,541,452	32,488,357			5
Award Fee					
<b>Total Revenue</b>					
<b><i>Costs Incurred</i></b>					
Direct Cost	51,076,367	24,734,073			6
Grants Under	4,500,000	668,690			
<b>Total Direct Costs</b>	<b>\$ 55,576,367</b>	<b>\$ 25,402,763</b>			
<b><i>Indirect Costs</i></b>					
Indirect Costs	11,965,085	7,085,594			
<b>Total Indirect Costs</b>	<b>\$ 11,965,085</b>	<b>\$ 7,085,594</b>			
<b>Total Fixed Fee</b>				<b>\$403,009</b>	<b>A</b>
<b>Total Cost-Plus-</b>					
<b>Outstanding Fund</b>	<b>\$ -</b>	<b>\$ -</b>			<b>7</b>
<b>Total Questioned Cost</b>				<b>\$403,009</b>	<b>A</b>

<sup>2</sup> The Notes to the Special Purpose Financial Statement are an integral part of the Statement.

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DAI Global, LLC  
**Notes to the Special Purpose Financial Statement<sup>3</sup>**

**Note 1. Basis of Presentation**

The accompanying Special Purpose Financial Statement (the "Statement") includes costs incurred under USAID's Afghan Women's Leadership in the Economy (AWLE) funded through Task Order No. AID-306-TO-15-00062 under IDIQ No. AID-306-I-14-00013 for the period July 1, 2015 through June 30, 2018. Because the Statement presents only a selected portion of the operations of DAI Global, LLC, it is not intended to and does not present the financial position, changes in net assets, or cash flows of DAI Global, LLC. The information in this Statement is presented in accordance with the requirements specified by the Office of the Special Inspector General for Afghanistan Reconstruction ("SIGAR") and is specific to the contract listed above. Therefore, some amounts presented in this Statement may differ from amounts presented in, or used in the preparation of, the basic financial statements.

**Note 2. Basis of Accounting**

Expenditures transacted in the Project's Afghanistan office are reported on the Statement using the cash basis of accounting. Expenditures paid through DAI's Home Office are reported using the accrual basis of accounting. All expenditures are recognized following the cost principles contained in DAI Global, LLC's Cost Accounting Standards Disclosure Statement, Generally Accepted Accounting Principles (GAAP), or the requirements of the commercial entity cost principles appearing in Title 48, Part 31 of the United States Code of Federal Regulations wherein certain types of expenditures are not allowable or are limited as to reimbursement.

**Note 3. Organizational History**

DAI Global, LLC is a global development company with operations around the world. The Company, formerly known as "Development Alternatives, Inc.," was originally incorporated on May 6, 1970 and was converted into a limited liability company on January 15, 2016 under the laws of the state of Delaware. The business and affairs of the Company are managed by its Board of Managers.

**Note 4. Foreign Currency Conversion Method**

For purposes of preparing the Statement, conversions from local currency to United States dollars were prepared in accordance with DAI Global, LLC's exchange rate policy. To record financial transactions, DAI Global, LLC uses the exchange rate of the authorized bank or financial institution effecting the conversion of U.S. dollars to local currency for in-country purchases. This foreign currency exchange rate remains in effect until another currency conversion is required.

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<sup>3</sup> The Notes to the Special Purpose Financial Statement are the responsibility of DAI's management.

**Note 5. Revenues**

Revenues are recorded on the same basis of accounting as presented in Note 2.

**Note 6. Costs Incurred by Budget Category**

The budget categories presented, and associated amounts reflect the budget line items presented within the final, USAID-approved budgets adopted as a component of Task Order No. AID-306-TO-15-00062 under IDIQ No. AID-306-I-14-00013. Actual expenditures match the approved budget categories for the contract. The budget amount covers the entirety of the task order performance period.

**Note 7. Balance**

The balance presented on the Statement represents the difference between the revenues earned under the contract and the actual costs incurred plus fixed fee amount. An amount greater than zero would reflect that revenues have been earned that exceed the costs incurred or charged to the contract and an amount less than zero would indicate that costs have been incurred but are pending additional evaluation before a final determination of allowability and amount of revenue earned may be made.

**Note 8. Currency**

All amounts presented are shown in U.S. dollars.

**Note 9. Program Status**

The Afghan Women's Leadership in the Economy (AWLE), renamed as Women in the Economy (WIE), project continues to date. The period of performance for the contract is scheduled to conclude on June 30, 2019. Accordingly, adjustments to amounts currently reported on the Special Purpose Financial Statement may be made as a result of final negotiated indirect cost rate agreements.

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**DAI Global, LLC****Notes to the Questioned Costs Presented on the Special Purpose Financial Statement**<sup>4</sup>**Note A: Questioned Cost – Missing Fixed Fee Invoice Pre-Approval**

Finding 2019-01: DAI did not provide evidence of approval from the COR and Contracting Officer prior to submitting the fixed fees invoice for payment, which violated the terms and conditions of the contract between DAI and USAID. This resulted in \$403,009 in total unsupported questioned costs.

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<sup>4</sup> Alphabetic notes to the questioned costs presented on the Special Purpose Financial Statement were developed by and are the responsibility of the auditor



### **Independent Auditor's Report on Internal Control**

President and Chief Executive Officer and Board of Managers  
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2530 Crystal Drive  
Arlington, VA 22202

We have audited the Special Purpose Financial Statement ("Statement") and related notes to the Statement, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, by DAI Global LLC (DAI), under the United States Agency for International Development (USAID) IDIQ AID-306-I-14-00013 task order number AID-306-TO-15-00062 for the period July 1, 2015 through June 30, 2018. We have issued our report thereon dated June 6, 2019 with a qualified opinion.

#### ***Internal Control Over Financial Reporting***

In planning and performing our audit of the Statement, we considered DAI's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the Statement, but not for the purpose of expressing an opinion on the effectiveness of DAI's internal control. Accordingly, we do not express an opinion on the effectiveness of DAI's internal control.

A *deficiency* in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of DAI's Statement will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these

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limitations, material weaknesses may exist that have not been identified. During our audit we noted one matter involving internal control we consider to be a material weakness as defined above and described as Finding 2019-01 in the Schedule of Findings and Questioned Costs. We also identified one deficiency in internal control per Finding 2019-02 in the Schedule of Findings and Questioned Costs.

### ***Purpose of this Report***

The purpose of this report is solely to describe the scope of our testing of internal control and the results of that testing, and not to provide an opinion on the effectiveness of DAI's internal control. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering DAI's internal control. Accordingly, this communication is not suitable for any other purpose.

### ***Restriction on Use***

This report is intended for the information of DAI, USAID, and the Special Inspector General for Afghanistan Reconstruction. Financial information in this report may be privileged. The restrictions of 18 U.S.C. 1905 should be considered before any information is released to the public.

*Williams, Adley & Company-DC, LLP*  
Washington, D.C.  
June 6, 2019



## Independent Auditor's Report on Compliance

President and Chief Executive Officer and Board of Managers  
DAI Global, LLC  
7600 Wisconsin Avenue, Suite 200  
Bethesda, MD 20814

Office of the Special Inspector General for Afghanistan Reconstruction  
2530 Crystal Drive  
Arlington, VA 22202

We have audited the Special Purpose Financial Statement ("Statement") and related notes to the Statement, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, by DAI Global LLC (DAI), under United States Agency for International Development (USAID) IDIQ AID-306-I-14-00013 task order number AID-306-TO-15-00062 for the period July 1, 2015 through June 30, 2018. We have issued our report thereon dated June 6, 2019 with a qualified opinion.

### ***Compliance and Other Matters***

As part of obtaining reasonable assurance about whether DAI's Statement is free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. As we performed our testing, we considered whether the information obtained during our testing indicated the possibility of fraud or abuse. The results of our tests disclosed one instance of material noncompliance per finding 2019-01 and one instance of noncompliance per finding 2019-02 in the Schedule of Findings and Questioned Costs, which is required to be reported under *Government Auditing Standards*.

### ***Purpose of this Report***

The purpose of this report is solely to describe the scope of our testing of compliance and the results of that testing, and not to provide an opinion on DAI's compliance. This report is an integral part of an audit performed in accordance with *Government Auditing*

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*Standards* in considering DAI's compliance. Accordingly, this communication is not suitable for any other purpose.

***Restriction on Use***

This report is intended for the information of DAI, USAID, and the Special Inspector General for Afghanistan Reconstruction. Financial information in this report may be privileged. The restrictions of 18 U.S.C. 1905 should be considered before any information is released to the public.

*Williams, Adley & Company-DC, LLP*  
Washington, D.C.  
June 6, 2019

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## Schedule of Findings and Questioned Costs

### Finding 2019-01: Missing Fixed Fee Invoice Pre-Approval

**Nature of Finding:** Material Weakness in Internal Control and Material Noncompliance

**Condition:** DAI's fixed fee is tied to the accomplishment of eight deliverables under its task order. Upon successful achievement of a deliverable, DAI must provide evidence of the deliverable's achievement to the Contracting Officer Representative and the Contracting Officer, then receive approval from the Contracting Officer before submitting an invoice for the fixed fee amount associated with the deliverable. Each deliverable provides for a percentage payment of between 5% and 15% of the total fixed fee amount. We reviewed 39 invoices submitted for payment during the period we audited, which totaled \$33,616,783 between July 1, 2015 and June 30, 2018. The submissions included three invoices with fixed fees totaling [REDACTED]. For one invoice that included a fixed fee of \$403,009, DAI did not provide evidence it received approval from USAID's Contracting Officer (CO) prior to its submission. During our fieldwork, DAI provided evidence of USAID's retroactive approval of the fixed fee. However, this after-the-fact approval does not comply with the task order requirement.

**Criteria:** According to section B.5 of the task order AID-306-TO-15-00062:

"The Contractor's fixed fee is tied to the accomplishment of the deliverables outlined in Section f.5. Upon successful achievement of the deliverable, the Contractor must provide evidence of the achievement to the [Contracting Officer Representative] and the CO. Upon acceptance by USAID and receipt of approval from the CO, the Contractor may submit an invoice for the amount of the fee associated with the deliverable."

48 CFR § 31.201-2, entitled Determining allowability,

"(a) A cost is allowable only when the cost complies with all of the following requirements:

... (4) Terms of the contract.

(5) Any limitations set forth in this subpart...

(c) When contractor accounting practices are inconsistent with this subpart 31.2, costs resulting from such inconsistent practices in excess of the amount that would have resulted from using practices consistent with this subpart are unallowable.

(d) A contractor is responsible for accounting for costs appropriately and for maintaining records, including supporting documentation, adequate to demonstrate that costs claimed have been incurred, are allocable to the contract, and comply with applicable cost principles in this subpart and agency supplements. The contracting officer may disallow all or part of a claimed cost that is inadequately supported."

**Cause:** DAI's management stated that the project obtained a verbal approval for the fixed fee invoice in question and the invoice with the deliverable fee was approved. However, USAID's verbal approval does not substitute for or adequately provide the receipt of

approval required before submission to USAID for payment. We determined that DAI departed from the contractually mandated requirement in one instance because staff were not adequately informed of acceptable evidence needed to verify task order requirements were met that allow the submission of the fixed fee invoice for payment.

**Effect:** DAI's failure to document receipt of approval from USAID exposed an internal control deficiency in DAI's documentation process and resulted in a questioned cost of one fixed fee. Further, the internal control deficiency that led to the questioned cost remains an issue and may result in future unsupported costs if not corrected.

**Questioned Costs:** We determined \$403,009 in unsupported fixed fee costs.

**Recommendation:** We recommend that DAI:

1. Update its invoice approval protocol to include a checklist reminder to staff when invoices with fixed fees must receive prior approval from the USAID Contracting Officer and preserve evidence of the approval as required.
2. Reimburse USAID for the questioned cost of \$403,009 that we determined was unsupported based on the task order requirements.

**Finding 2019-02: Incorrect G&A Indirect Cost Rate Used**

**Nature of Finding:** Internal Control Deficiency and Noncompliance

**Condition:** We tested 49 payroll transactions and 67 non-labor disbursement transactions. We noted that DAI used [REDACTED] for 1 non-labor transaction and [REDACTED] for 3 payroll transactions as the General and Administration (G&A) rate when the ceiling per the contract was [REDACTED]. We then re-computed the G&A rate applied across the totality of direct labor and non-labor costs and determined there was a discrepancy in the overall G&A rate applied that exceeded the contract ceiling rate for G&A costs. Therefore, we concluded that DAI indirect costs claimed for the G&A cost category were calculated incorrectly. Please see details in the table below:

Cost of Non-Labor Transactions tested with Incorrect G&A Rate (A)	Total Cost of Non-Labor Population with Incorrect G&A Rate (B)	[REDACTED]				Miscalculated G&A Cost (G=D-F)
\$ 57,590.04	\$443,710.38	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	\$565.73

Cost of Labor Transactions tested with Incorrect G&A Rate (A)	Total Cost of Labor Population with Incorrect G&A Rate (B)	[REDACTED]				Miscalculated G&A Cost (G=D-F)
\$ 33,314.40	\$564,398.48	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	\$846.60
<b>Estimated Miscalculation of G&amp;A</b>						<b>\$1,412.33</b>

**Criteria:** According to contract #AID-306-I-14-00013, Section B.9(c), Reimbursement for indirect costs shall be at the final negotiated rates, but not in excess of the following ceiling rates: G&A [REDACTED]

DAI's USG New Business and Project Management Manual, Procedure 5.1 New Project Oracle Setup, defines responsibilities for setting up new award billings in DAI's system. Specifically, it assigned the Billing Manager with completing the billing portion of the Oracle Contract & Billing Setup Form (OCBSF) provided by the Contract Analyst. The Regional Finance & Operations Manager is responsible for ensuring the accuracy of the OCBSF. Under Work Instruction 5.2, Bill Rates and Rate Caps in Oracle, paragraph 2.5 states that the head of Contracts is responsible for maintaining information regarding indirect costs.

According to 48 CFR § 31.201-2, Determining allowability, (a)"A cost is allowable only when the cost complies with...the following requirements:

...(4) Terms of the contract...

(d) A contractor is responsible for accounting for costs appropriately and for maintaining records, including supporting documentation, adequate to demonstrate that costs claimed have been incurred, are allocable to the contract, and comply with applicable cost principles in this subpart and agency supplements. The contracting officer may disallow all or part of a claimed cost that is inadequately supported”.

**Cause:** DAI’s billing team inadvertently used the [REDACTED] unadjusted G&A rates for this project, which indicates an internal control deficiency in monitoring to ensure the correct indirect cost rates are used in all instances.

**Effect:** Although DAI provided evidence from a subsequent period that shows an adjustment to indirect costs for the period audited based on updated G&A rates, the U.S. Government was initially overbilled due to DAI’s use and application of an incorrect G&A indirect rate. Further, there is less assurance that future DAI indirect cost calculations on this project are accurate without more robust internal controls for ensuring the correct indirect rates are applied in all instances.

**Questioned Costs:** None<sup>5</sup>.

**Recommendation:** We recommend that DAI:

1. Develop and implement more effective controls to ensure its process for billing G&A indirect costs to USAID agrees with the contractually mandated rates. For example, DAI could add a procedural step in its USG New Business and Project Management Manual to describe how the indirect cost rate approved in the award will be updated in the Oracle system and verified as entered accurately for billing purposes.

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<sup>5</sup> Originally, we determined a questioned cost for \$1,412 for ineligible indirect costs. However, the questioned cost was removed after DAI provided evidence that the indirect cost calculations subsequently were adjusted to match the provisional indirect cost rates approved by USAID.

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### Status of Prior Audit Report Findings and Recommendations

We reviewed three prior audit reports, reviews and assessments pertaining to DAI's activities in Afghanistan. We identified three prior audits that contained 18 findings, of which nine findings may have a material effect on the Special Purpose Financial Statement or other financial information significant to the audit objectives. The reports containing findings are:

1. SIGAR 18-61 Financial Audit, titled "USAID's Agricultural Credit Enhancement Project: Audit of Costs Incurred by Development Alternatives Inc." issued on July 18, 2018.
2. SIGAR 19-41 Financial Audit, titled "USAID's Regional Agricultural Development Program (RADP) in Northern Afghanistan: Audit of Costs Incurred by DAI Global LLC" issued on June 10, 2019.
3. Audit Report: USAID Office of Inspector General close out audit report of costs incurred by DAI in Afghanistan under contract and cooperative agreement numbers 306-TO-13-00004, 306-C-14-00002, 306-A-00-09-00508, 306-C-14-00016, and 306-C-12-00003. The audit report, which covered the period between December 1, 2014 and December 31, 2015, was issued on September 26, 2017 for the ALBA project, RADP, Incentives for Driving Economic Alternatives for the North, East and West project, Strong Hubs for Afghan Hope and Resilience project and Stabilization in Key Areas North project.

We conducted follow-up procedures including discussion with management, reviewed evidence of corrective actions, and performed testing of similar matters during our current audit. Accordingly, we concluded that DAI had taken corrective actions on the nine findings and none of the findings had a material effect on the current SPFS or other financial data significant to the audit objectives.

**Report:** USAID OIG Audit Report 3-306-17-035-R, Closeout and Financial Audits of Schedule of Costs Incurred in Afghanistan by Development Alternatives Inc. (DAI) for Contract number 306-TO-13-00004 for the period December 1, 2014 to December 31, 2015; Contract number 306-A-00-09-00508 for the period December 1, 2014 to September 30, 2015; Contract number 306-C-14-00002 for the period December 1, 2014 to December 31, 2015; Contract number 306-C-14-00016 for the period December 1, 2014 to December 31, 2015; and Contract number 306-C-12-00003 for the period December 1, 2014 to May 31, 2015.

**Issue:** Finding 5.1 – For the ALBA project, there were instances where no documentation supporting the trip was provided, which resulted in \$30,233 in questioned cost.

**Status:** The transactions in question were reviewed and DAI asserted that in each instance travel took place as planned. Recognizing the absence of some boarding passes, DAI provided lodging bills as ancillary documents and confirmed that the dates

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on the bills are consistent with the travel dates. USAID made a final determination and requested reimbursement of \$1,263.67 in questioned travel costs, for which we verified that DAI made the reimbursement. We tested travel costs for adequate supporting documentation for the period we audited without exception. We determined that the conditions, which existed in the prior audit report, were not repeated.

**Report: USAID's Agricultural Credit Enhancement Project: Audit of Costs Incurred by Development Alternatives Inc. Under Task Order number EDH-I-14-05-00004 for the period from July 15, 2010 through February 25, 2015**

**Issue:** *Finding number 2018-01 – Missing or insufficient source documentation to support incurred field office labor expenses (Deficiency).* The external auditors determined that DAI did not maintain documentation to support field office employees' hours and rates charged to the project. As a result, the external auditors questioned the unsupported amount of \$4,331 of which [REDACTED] were in direct costs and [REDACTED] in indirect costs.

**Status:** We followed up on the status of the questioned cost and determined that USAID considered this issue resolved and eliminated the questioned cost. We reviewed payroll procedures and tested labor costs for proper support. We determined that the conditions, which existed in the prior audit report, were not repeated.

**Issue:** *Finding number 2018-02 – Missing or Insufficient Source Documentation to Support Incurred Equipment and Supply Expenses (Deficiency).* The external auditors determined that DAI did not maintain supporting documentation for three supply related disbursements. As a result, they questioned the unsupported amount of \$7,169 of which [REDACTED] were in direct costs and [REDACTED] in indirect costs.

**Status:** We followed up on the status of this finding and determined that it was resolved. We also performed substantive testing of support for non-payroll related charges without exception. We determined that the conditions, which existed in the prior audit report, were not repeated.

**Issue:** *Finding number 2018-03 – Lack of Evidence of Competitive Bidding (Non-Compliance).* The external auditors determined that the total cost of \$9,774, of which [REDACTED] were in direct costs plus [REDACTED] in allocated indirect costs, were questioned as ineligible as DAI could not provide documentation to support that the equipment and supplies purchased were acquired throughout the required procurement process. DAI could not provide bidding documents, costs analysis or sole source justification.

**Status:** We followed up on the questioned costs and determined that USAID resolved the issue. We also performed substantive testing of contracts under the current award for compliance with competitive or noncompetitive documentation support requirements and did not find this issue repeated.

**Report: SIGAR 19-41 Financial Audit of USAID's Regional Agricultural Development Program in Northern Afghanistan: Audit of Costs Incurred by DAI**

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**Global LLC Under Contract number AID-306-C-14-00002 for the period January 1, 2016 through December 31, 2017.**

**Issue:** *Finding number 2018-01 – Noncompliance with the NICRA G&A Base of Application.* DAI assessed its general and administrative (G&A) rate against pass through other direct costs, which is inconsistent with Negotiated Indirect Cost Rate Agreement (NICRA) provisions and resulted in \$543,104 in questioned cost.

**Status:** According to DAI, USAID has requested DAI write up and submit an action plan to address the recommendations and submit to the Contracting Officer by no later than July 10. USAID has yet not ruled on corrective actions it will accept regarding this finding. We tested NICRA calculations for this award and found that the NICRA calculation did not agree with the contract requirements in all instances. The error in the NICRA calculation we observed is not the same as presented in the prior audit since we did not find that DAI applied the G&A rate to pass through costs. We determined that this finding has not been repeated and the error we observed with NICRA calculations did not have a material impact on our audit objectives.

**Issue:** *Finding number 2018-02 – Failure to Obtain USAID Approval Prior to Executing Grants Under Contract.* The external auditor identified 11 of 42 grants it tested did not have evidence of USAID's prior written approval as required by DAI's contract, which resulted in \$31,469 in questioned cost.

**Status:** According to DAI, USAID has requested DAI write up and submit an action plan to address the recommendations and submit to the Contracting Officer by no later than July 10. USAID has yet not ruled on corrective actions it will accept regarding this finding. We reviewed contracts for all required approvals as part of our audit and did not find that this issue was repeated.

**Issue:** *Finding number 2018-03 – Uncertified and Improperly Formatted Annual Inventory of Government Property.* The external auditor determined that the annual inventory was not in the format required by AIDAR 752.245-70 and excluded required information.

**Status:** According to DAI, USAID has requested DAI write up and submit an action plan to address the recommendations and submit to the Contracting Officer by no later than July 10. USAID has yet not ruled on corrective actions it will accept regarding this finding. We tested inventory records for completeness and verified the physical existence of 23 inventory items without exception. We determined that this finding has not been repeated.

**Issue:** *Finding number 2018-06 – Material Misstatements and Omissions of Required Components in the Special Purpose Financial Statement.* The external auditor noted that DAI failed to include the revenue and balance accounts required by SIGAR.

**Status:** According to DAI, USAID has requested DAI write up and submit an action plan to address the recommendations and submit to the Contracting Officer by no later than July 10. USAID has yet not ruled on corrective actions it will accept regarding this finding.

We reviewed all components of the Special Purpose Financial Statement (SPFS) prepared for this audit. We specifically tested revenues reported on the SPFS with the amount reported on the general ledger DAI provided without exception. We determined that the conditions, which existed in the prior audit report, were not repeated.

**Issue:** *Finding number 2018-07 – Evidence of Grantee Monitoring Not Provided.* The external auditor identified 3 of 42 grants reviewed wherein DAI did not follow its grant-monitoring procedures.

**Status:** According to DAI, USAID has requested DAI write up and submit an action plan to address the recommendations and submit to the Contracting Officer by no later than July 10. USAID has yet not ruled on corrective actions it will accept regarding this finding. For our audit, we reviewed supporting documentation for grant disbursements for evidence of appropriate grant monitoring. We did not find evidence that this issue was repeated.

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## Appendix A – Management’s Response to the Findings and Recommendations

DAI Washington

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Bethesda, Maryland 20814 USATel: +1 301 771 7600  
Fax: +1 301 771 7777  
www.dai.com

August 19, 2019

Williams, Adley & Company DC, LLP  
1030 15th Street, NW, Suite 350 West  
Washington DC, 20005

**Subject: DAI Global LLC’s Management Response to the Special Purpose Financial Statement audit of the United States Agency for International Development (USAID) funded Afghan Women’s Leadership in the Economy (AWLE) project under task order number AID-306-TO-15-00062, under Indefinite Delivery Indefinite Quantity (IDIQ) contract number AID-306-I-14-00013, for the period June 1, 2015 through June 30, 2018.**

This document is to provide DAI’s response to the two audit findings and recommendations identified in the subject audit report. Below you will find our response to each of the findings and where applicable, referenced additional support documentation is also included.

DAI would like to thank Williams, Adley & Company DC, LLP, for providing the opportunity to respond to the findings and recommendations as reported under SIGAR’s Special Purpose Financial Statement audit.

### **Finding 2019-01: Missing Fixed Fee Invoice Pre-Approval**

Material Weakness in Internal Control and Noncompliance

The Auditors examined 39 monthly invoices to USAID corresponding to the audit period, of which three invoices (Invoices No. 6, 9 and 21) would have contained a billed fixed fee amount in accordance with the task order deliverables. Auditors assert that DAI did not provide evidence of USAID’s Contracting Officer (CO) approval for one (Invoice 9) of three fixed fee containing invoices, and questioned the fixed fee portion of \$403,009 as an unsupported questioned cost. Auditors also noted that during the fieldwork, DAI provided evidence of USAID’s retroactive approval of the fixed fee. However, this after the fact approval did not comply with the task order requirements and the questioned cost finding was maintained.

**DAI Management Response:**

DAI does not concur with the Auditor's assertion that the fixed fee amount of \$403,009 billed to USAID was unsupported based on task order requirements and that the failure to secure written deliverable approval prior to billing the associated fixed fee amount constitutes adequate grounds for this cost to be questioned as unallowable.

Per Section B.5 of the task order AID-306-TO-15-00062, DAI is required to submit evidence of deliverable completion to the COR and CO. Upon acceptance of the deliverable by USAID and approval by the CO, DAI is eligible to bill the fee associated with the approved deliverable. DAI communicated the completion of Deliverable #14 (initiate geographically responsive and specific activities in the five major population centers in the regional economic zones / economic corridors of Kabul, Mazar-i-Sharif, Jalalabad, Kandahar and Herat) to the COR, Heather Van Nurden, both verbally in meetings and through the submission of biweekly reports for the period January-March 2016. The COR provided verbal approval of the deliverable and written approval of invoice #9 inclusive of the \$403,009 fixed fee charge.

To further substantiate her concurrence with the fixed fee amount, the COR provided retroactive written approval of Deliverable #14, which was shared with the Auditor during fieldwork. We therefore maintain that de facto approval of Deliverable #14 was received in a timely manner and that the fixed fee amount of \$403,009 is fully supported and eligible for payment.

Going forward, DAI will take measures to document formal, written acceptance by USAID and approval from the CO of all contract deliverables, before submitting and invoicing any fees associated with these deliverables.

Attachment DAI-2019-1A – COR confirmation of fee deliverable on Invoice No. 9  
Attachment DAI-2019-1B – March 2016 Bi-weekly Report

**Finding 2019-02: Incorrect G&A Indirect Cost Rate Used**

Internal Control Deficiency and Noncompliance

Auditors determined that DAI used [REDACTED] for one sampled non-labor transaction and [REDACTED] for three sampled payroll transactions as the General and Administration (G&A) rate when the ceiling per the contract was [REDACTED]. When re-computing the G&A rate applied across the totality of direct labor and non-labor costs in the audit period, auditors calculated there was a discrepancy of \$1,412 in the overall G&A rate applied that exceeded the contract ceiling rate of [REDACTED] for G&A costs. Auditors questioned this discrepancy as an ineligible indirect cost.

**DAI Management Response:**

DAI concurs that the incorrect G&A rate of [REDACTED] was applied to a limited number of cost transactions as a result of an internal rate setup error. However, we do not agree

with the Auditor's questioning of \$1,412 in G&A costs as ineligible, nor with the calculation used to arrive at the questioned cost amount.

Per the terms of PROMOTE IDIQ AID-306-I-14-00013, G&A should be applied at the final negotiated rate, but should not exceed [REDACTED]. Rather than conduct a comprehensive analysis of all G&A rates applied in the audit period, the Auditor extrapolated the error to the entire sampled cost population, arriving at an arbitrary total of \$1,412 in questioned cost. The basis for this extrapolation, however, remains unclear. For the four sampled transactions identified as burdened with the incorrect G&A rate, the calculated overbilling is \$136.36, per the table below:

Sample No.	Payment Date	Raw Cost	[REDACTED]	[REDACTED]	Overbilled \$
18	2/18/2016	33,314.40	[REDACTED]	[REDACTED]	49.97
40	5/1/2018	5,722.46	[REDACTED]	[REDACTED]	8.59
46	8/15/2016	27,386.98	[REDACTED]	[REDACTED]	41.08
49	2/18/2016	24,480.60	[REDACTED]	[REDACTED]	36.72
<b>TOTAL</b>					<b>136.36</b>

In August 2018 and April 2019, DAI re-costed all the incorrectly burdened transaction items, applying the correct ceiling of [REDACTED] or lower and crediting USAID for the difference (please refer to WIE invoices #42 and #51). DAI maintains that any ineligible costs billed to USAID as a result of incorrectly applied G&A indirect rates have already been refunded to USAID, therefore no further action is necessary to address this finding.

To prevent a reoccurrence of G&A billing errors, we have established additional ongoing internal control initiatives to strengthen our invoicing process. These initiatives include the creation of two reports that list the burden schedule names and ceiling rates at the subprojects and task level. Project Billing Accountants will check their projects against these reports when a new subproject and or task is added under a master project to ensure the correct burden schedule has been setup before billing.

Attachment DAI-2019-2A – August 2018 Invoice (#1002611-42) with adjustment

Attachment DAI-2019-2B – April 2019 Invoice (#1002611-51) with adjustment

Attachment DAI-2019-2C – NICRA Letter July 17, 2018

DAI believes that our management comments properly address the two identified deficiencies and reflects our commitment to implementing and ensuring adequate controls and compliance with relevant policies and applicable regulations. DAI will make sure to share and emphasize any lessons learned from this audit to ensure that our policies, procedures, and operations, adequately addresses any identified deficiencies as identified in this audit report.

Please do not hesitate to contact DAI if you have any further questions, would require additional information, or wish to further discuss DAI responses provided in this letter.

Sincerely,

Damir Salkovic  
Senior Manager, Internal Audit  
301.771.7385

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## Appendix B – Auditor’s Response to Management Comments

Williams Adley & Company-DC, LLP (Williams Adley) has reviewed DAI Global LLC’s (DAI’s) management response to the audit findings. In consideration of management views, we have included the following rebuttal to certain matters presented by DAI. A rebuttal has been included in those instances where management disagreed with the facts presented in the finding or otherwise did not concur with our recommendations. DAI did not agree with Finding 2019-01 and disagreed with the questioned cost amount in Finding 2019-02. Williams Adley’s rebuttal to DAI management comments is as follows:

### **Finding 2019-01: Missing Fixed Fee Invoice Pre-Approval**

Management disagreed with Williams Adley’s conclusion that for one invoice, which included a fixed fee of \$403,009, DAI did not provide evidence it received approval from USAID’s Contracting Officer (CO) prior to its submission as required. Specifically, DAI asserted that it did obtain the appropriate approvals based on meeting the deliverable requirements, which includes an email from the USAID’s Contracting Officer Representative (COR) stating her approval of the invoices was a “defacto” approval of the deliverables.

Williams Adley does not dispute the deliverables as described by DAI and the COR. The discussion and evidence provided still is missing the approval from the CO, which is a contractual requirement prior to submittal of an invoice for the fee amount associated with the deliverable. For that reason, the finding and recommendation remain as stated.

### **Finding 2019-02: Incorrect G&A Indirect Cost Rate Used**

While management agreed that an incorrect indirect rate was used for general and administrative (G&A) overhead costs in certain instances, DAI disagreed with Williams Adley’s conclusion that the incorrect indirect cost rate should result in a questioned cost. Specifically, DAI asserted that it adjusted the indirect costs per invoices 42 and 51 in October 2018 and April 2019, respectively, to agree with the provisional rates issued by USAID in July 2018 without exceeding the ceiling rate of [REDACTED] (The provisional rates for G&A ranged from [REDACTED] to [REDACTED] for the period audited. The ceiling rate for G&A was [REDACTED] per the contract). DAI concluded that any questioned cost resulting from application of the incorrect G&A rate has been refunded to USAID.

Williams Adley reviewed the information provided by DAI in its response and agrees that the G&A indirect cost was adjusted in a subsequent period. As such, the finding has been corrected to remove the questioned cost amount while other aspects of the finding remain unchanged.

## SIGAR's Mission

The mission of the Special Inspector General for Afghanistan Reconstruction (SIGAR) is to enhance oversight of programs for the reconstruction of Afghanistan by conducting independent and objective audits, inspections, and investigations on the use of taxpayer dollars and related funds. SIGAR works to provide accurate and balanced information, evaluations, analysis, and recommendations to help the U.S. Congress, U.S. agencies, and other decision-makers to make informed oversight, policy, and funding decisions to:

- improve effectiveness of the overall reconstruction strategy and its component programs;
- improve management and accountability over funds administered by U.S. and Afghan agencies and their contractors;
- improve contracting and contract management processes;
- prevent fraud, waste, and abuse; and
- advance U.S. interests in reconstructing Afghanistan.

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## To Report Fraud, Waste, and Abuse in Afghanistan Reconstruction Programs

To help prevent fraud, waste, and abuse by reporting allegations of fraud, waste, abuse, mismanagement, and reprisal, contact SIGAR's hotline:

- Web: [www.sigar.mil/fraud](http://www.sigar.mil/fraud)
- Email: [sigar.pentagon.inv.mbx.hotline@mail.mil](mailto:sigar.pentagon.inv.mbx.hotline@mail.mil)
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